

## **1997 Talking Points Tax Relief**

Republican Lawmakers approved more than \$400 million in tax relief during the 1997 session. Property tax relief and the B&O tax rollback alone accounted for more than \$300 million in tax reductions.

<b><u>TAX CUT MEASURES</u></b>		<b><u>1997-99</u></b>
SB 5835 (Referendum 47)	Property tax limit	\$195 million
HB 1821	B&O tax rollback	\$ 94 million
HB 1417	4.7 percent reduction (1997 only)	\$ 26 million
Miscellaneous revenue reductions		\$ 87 million

### **Property Tax Relief (SB 5835 - passed Legislature, SB 5835 will appear on the November ballot as Referendum Bill # 47)**

**Background** - Homeowners in Washington face two major problems with respect to property taxes:

- √ taxes are rising faster than wages, and
- √ when property values rise rapidly, property taxes jump with them.

Senate Bill 5835 addresses both problems and the effects are dramatic.

#### **Major provisions of the bill include:**

- √ A limit on state property tax growth to inflation or 6 percent, whichever is less
- √ A permanent 4.7 percent reduction in the state property tax beginning in 1998
- √ A local limit that requires a public vote for property tax increases, and
- √ A cushion that blunts the impact of rapid value growth by phasing in large tax increases over a period of several years

This legislation eases the property tax burden on young couples, working families, senior citizens and small businesses in three ways:

- √ it reduces the growth in state property taxes
- √ it forces local government accountability for tax increases, and
- √ it reduces the impact of sudden value increases on property tax bills

#### **Limiting the State Portion**

If this measure becomes law, everyone who pays state property taxes will experience dramatic savings that compound over time.

- √ In just five years, the amount saved on the state portion of the property tax alone would be \$350 for the owner of a \$110,000 home (the state median average)
- √ The savings after 10 years would be nearly \$1,000
- √ After 30 years, the savings would be more than \$8,000 on state property taxes

#### **Local Accountability**

In addition to providing state property tax relief to homeowners, SB 5835 puts an Initiative-601 style spending limit on local tax collections. The measure:

- √ limits local districts to annual increases of 6 percent or the rate of inflation, whichever is less
- √ requires local officials to vote before raising property taxes (a simple majority for increases below the limit, a supermajority when raising taxes beyond the rate of inflation up to the 6-percent cap)

A vote of the people is already required for increases above the 6-percent limit. If the measure is fully implemented by local government, the owner of a median-priced home would save nearly \$15,000 in local property taxes over the life of a 30-year mortgage.

### **Value Averaging**

Another problem facing homeowners is the impact of rapidly growing property values on property tax bills. SB 5835 reduces homeowner taxes when property values jump up quickly by phasing in the increased assessment over a period of up to four years.

When values increase 15 percent or less, property owners must pay tax on their entire assessed value. But under provisions of the bill, if the value increases from 15 percent to 60 percent, they pay only the previous assessed value plus 15 percent. Increases in value above 60 percent are assessed at the old value plus 25 percent.

As a result, homeowners have up to four years to absorb the total cost of value increases. That cuts homeowner taxes in the short term and cushions the shock of sudden property tax increases permanently.

### **Onetime 4.7 Percent State Property Tax Reduction (EHB 1417 - signed into law)**

**Background** - The state property tax levy is limited to \$3.60 per \$1,000 of market value and is subject to the 106-percent levy limit. The state property tax for 1996 was reduced 4.7 percent by legislation enacted during the 1995 session.

**Bill Summary** - The one-time, 4.7 percent reduction of the state property tax is extended to 1997. In addition, a 4.7 percent reduction in 1998 is referred to the voters. If approved by the voters, the reduced 1998 levy will be used for future state levy calculations under the 106 percent levy limit.

### **B&O Tax Rollback (EHB 1821 - signed into law)**

**Background** - In 1992, former Gov. Mike Lowry and House Appropriations Chairman Gary Locke declared a state “fiscal emergency.” Although the facts did not support their dire predictions — the 1993-95 revenue forecast predicted an increase in revenue collections of nearly \$1.3 billion — Gov. Lowry and majority Democrats eventually approved the second largest tax increase in state history. The greatest burden from these tax increases — \$330 million in the 1993-95 budget period alone — fell on the shoulders of small employers in the state’s service industries.

The business and occupation tax is levied on gross receipts for all businesses in Washington. There are no deductions for the costs of doing business. Prior to 1993, all service businesses paid a 1.5% B&O tax. In 1993, the service category was split into three types, each with its own new tax rate:

- √ Selected Business Services (legal, accounting, bookkeeping, consulting, etc.)
- √ Financial Services (banking, securities, investment, etc...)
- √ Other Services (doctors, beauticians, and others)

In 1996, the Legislature overrode a veto by Gov. Mike Lowry and rolled back half of the 1993 tax hike. The partial roll back saved employers approximately \$132 million.

**Bill Summary** - HB 1821 cuts taxes for service employers beginning July 1, 1998 and saves them approximately \$94 million in the coming budget period. Selected business services and financial services classifications will be consolidated with “other activities”

<b>Business and Occupation Tax Rates for Service Businesses</b>				
Business Types	Prior to 1993	After 1993 Tax Increase	After 1996 50 Percent Rollback	HB 1821
Selected Business Services	1.5%	2.5%	2.0%	1.5%
Financial Services	1.5%	1.7%	1.6%	1.5%
Other Services	1.5%	2.0%	1.75%	1.5%

### **B&O Tax Facts**

The reduction to pre-1993 levels will benefit more than 50,000 small businesses in Washington state. In fact, 96 percent of the businesses that receive a reduction under this measure are small businesses.

Sixty-eight percent of the businesses benefitting from this tax rollback have total annual sales of less than \$200,000.

Small business owners benefitting from HB 1821 have an average annual income of about \$30,000 per year.

### **Eliminating the Intangibles Tax (ESB 5286 - signed into law)**

**Background** - All property in Washington is subject to the property tax including intangible property such as business logos, so-called business goodwill, patents, licenses and a variety of other items not usually considered as property. Some of the intangibles currently exempt from the property tax include: money, mortgages, certificates of deposit, stocks, savings accounts and sports franchises.

Although some counties have eliminated the tax, the state's employers consider the tax a potentially dangerous "sleeping dog" that if awakened could take a bite out their profits. Taxing intangibles is not only subject to arbitrary measurement, say opponents, it also could become a job-killing disincentive to doing business in Washington State. One recent case gives credence to employers' concern. The assessor in Grays Harbor County assessed a local McDonald's franchise an intangibles tax based on the value of the McDonald's Golden Arches logo. This heightened interest in wiping the tax off the books.

**Bill Summary** - All intangible personal property is exempt from property tax including items such as: trademarks, trade names, brand names, patents, copyrights, trade secrets, franchise agreements, licenses, permits, core deposits of financial institutions, noncompete agreements, clientele, customer lists, patient lists, favorable contracts, favorable financing agreements, reputation, exceptional management, prestige, good name, or integrity of a business. The Department of Revenue will submit a report on tax shifts, tax losses and any litigation resulting from the act by December 1, 2000. The bill's provisions affect taxes levied for collection in 1999 and thereafter.